Testimony of

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INTRODUCTION

Good morning Chairman Goodlatte, Ranking Member Peterson and members of the committee. I am Pat FitzSimmons, a pork producer from Dassel, Minnesota. My five brothers and I are partners in FitzSimmons and Sons, and Protein Sources Milling, which is based in Mapleton, Minnesota. In our partnership, we raise market hogs, have a feed milling business, manage sow farms and a boar stud for other farm families, and also provide those families with management service for their swine operations. Our families have a strong commitment to the swine industry and believe it's important to be involved in policy development and leadership.

I appreciate you holding this field hearing in Minnesota and for this opportunity to provide you with information on what I believe is working in the current Farm Bill, and what I think needs to improve as we consider the 2007 Farm Bill. I base my comments on a great deal of personal experience and my work with other Minnesota pork producers. I would like to submit my written testimony and request that it be included in the record.

There are currently 5,000 Minnesota pork producers and the state ranks third in pork production. Last year, our state pork producers earned over $2 Billion dollars in gross income. That in turn generated another $5.6 Billion dollars in economic activity for the state. The industry also directly employs over 22,000 individuals. The industry consumes locally grown crops and provides an excellent fertilizer source for our cropland. The Farm Bill affects our industry in numerous ways – including the availability of feed grains - crop production – and nutrient management and conservation practices.

My input today is based on my family's experience as pork producers and as a businessman who works with other pork producers on a regular basis. In Minnesota, I believe pork producers have successfully worked towards maintaining our competitive advantage – both domestically and globally – in a rapidly changing industry. The 2007

Farm Bill should be seen as a national investment for all of our pork producers and for our consumers.

Public research, market access, conservation, and rewarding pork producers who adopt the very best nutrient management and environmental practices are ways the Farm Bill can assist Minnesota pork producers. Through these Farm Bill programs we can continue to meet our ultimate goal - bringing consumers a safe and reliable food supply. As an advocate for research, market development and conservation programs, I also believe we can advance alternative fuels made from ag commodities while conserving our natural resources and assuring grain supplies for our livestock needs.

PROFILE OF TODAY'S PORK INDUSTRY

I know that many of you understand the economic contribution that pork producers make to our state economy. In Rep. Peterson's Congressional District, pork producers' gross income from market hog sales was $459 million dollars last year. And in Rep. Gutknecht's district, where the top ten pork producing counties in the state are located, pork producers' gross income last year brought $1.3 Billion dollars into the region. The income that flows into our rural communities from swine production is greatly influenced by actions beyond my farm gate. It requires a combination of factors that keep our industry competitive in domestic and international markets.

Pork exports are among reasons why Minnesota pork producers can be an economic engine at the local level and to our state. The U.S. pork industry had another year of record exports. U.S. pork producers currently export one out of every six hogs that go to market. Minnesota pork producers received an additional $25 per head on each and every hog they sold last year because of exports. In Rep. Gutknecht's district alone, hog exports resulted in $257 million dollars to his district's pork producers. In Rep. Peterson's district, hog exports translated into an additional $85 million dollars in gross income to his district's pork producers.

As we rely on exports, we also depend on our crop producers to provide the feed grains necessary for hog production. Pork producers, along with the other livestock and poultry producers, are the single biggest customer for U.S. crop farmers. Feed for our pigs is the single largest production expense. A market hog will eat about 10 bushels of corn in its lifetime, and consume 3.8 bushels of soybeans that has been converted to soybean meal. Our state's market hogs ate an estimated 158 million bushels of corn and 57 million bushels of soybeans last year. In Martin County, for example, hogs will consume over 50 percent of the corn and 70 percent of the soybeans. I believe this value-added contribution to agriculture from pork production is very important to our local and state economies.

USDA estimates that livestock feed will account for 6 billion bushels (54 percent) of total corn usage this year. While USDA does not have a specific estimate of the amount of soybean meal used for livestock feed, suffice it to say that livestock will use the vast majority of the 34.25 million tons of domestic soybeans produced in 2006. Of these totals, pigs consumed just over 1 billion bushels of corn and the meal from nearly 418 million bushels of soybeans in 2005. Pork producers are strong and vital contributors to value-added agriculture in the U.S.

As we write the 2007 Farm Bill - as it is related to Minnesota pork production - I believe there are four main considerations:

- First, we must maintain our competitive advantage in the export market.
- Second, we must strengthen our competitiveness.
- Third, we must prevent adoption of policies that harm our industry.
- And lastly, the pork industry, as well as all animal agriculture, must continue to adopt management practices that capture the full value of the nutrients in livestock manure.

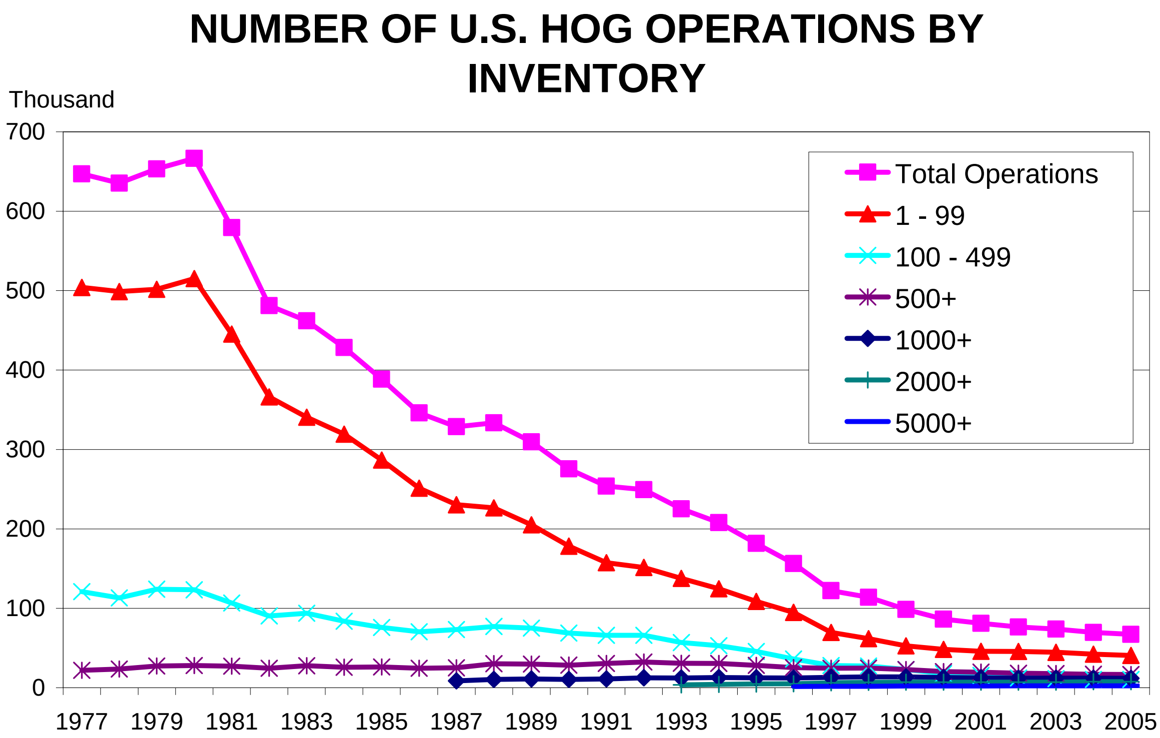
Pork production has changed dramatically in this country since the early and mid-1990s. Technology advances and new business models changed operation sizes, production systems, geographic distribution, and marketing practices. The demand for meat protein is on the rise in much of the world. Global competitiveness is a function of production economics, environmental regulation, labor costs and productivity. The United States can continue to be a leader in food production and meet the needs of increased consumer demands.

The U.S. pork industry today provides more than 20 billion pounds of delicious, wholesome and nutritious meat protein to consumers worldwide each year. In fact, 2006 will be the fifth consecutive year of record pork production in the United States, and all indicators point to another record in 2007. This is accomplished by nearly 67,000 pork operations in all 50 states, though the lion's share of production is located in the upper Midwest, mid-Atlantic, and High Plains states.

The number of operations today is much smaller than in years past, mirroring a trend that is widespread throughout agriculture. Figure 1 shows the number of operations of various sizes since 1977. The decline has been driven by the general downtrend in farm numbers and the fact that there are substantial economies of scale in hog production. USDA data indicate, for instance, that large hog farms average 1.5 pigs per litter more than small hog farms (USDA Hogs and Pigs Report, December 2005). Reasons for these advantages include specialization of labor and management and the ability to adapt modern technologies, such as group farrowing and artificial insemination.

U.S. pork production units have changed from single-site farrow-to-finish (ie. birth to market) production systems, which were generally family-owned and small by today's standards, to multi-site specialized units, which may be part of very large businesses – many of which are still family-owned. The changes were driven by the biology of the pig and the business challenges of the modern marketplace. Separate sites helped in controlling troublesome and costly diseases and enhanced the effect of specialization.

Figure 1



Source: USDA Hogs and Pigs Report, December 1977-2002, USDA Livestock Operations, April 2004

Marketing methods have changed as well. As recently as the early 1980s, a significant number of hogs were traded through terminal auction markets. All producers, though, began to bypass terminal markets and even country buying stations to deliver hogs directly to packing plants to minimize transportation and other transaction costs. Today, few hogs are sold through terminal markets and auctions, and the vast majority of hogs are delivered directly to plants.

Pricing systems have changed dramatically as well - from live-weight auction prices to today’s carcass-weight, negotiated or contracted prices with lean premiums and discounts paid according to the predicted value of individual carcasses. The shift to lean premiums and discounts was largely responsible for the dramatic increase in leanness seen in the 1990s.

According to researchers at the University of Missouri, the price of about 11 percent of all hogs purchased during January of this year was negotiated on the day of the agreement. All others were packer-produced or sold on marketing contracts wherein prices were not negotiated one lot or load at a time but determined by the price of other hogs sold on a given day, the price of feed ingredients that week or the price of Lean Hog futures on the Chicago Mercantile Exchange. These contracts are entered into freely and often aggressively by producers and packers alike to ensure, respectively, a market and a hog supply and, in some cases, to reduce the risk faced by one or both parties.

The economic impact of this industry is immense. Iowa State University researchers estimated that in 2003, the production sector directly employed more than 33,000 people and supported a total of 565,781 jobs in the U.S. economy. This estimate includes the jobs in sectors such as feed, supplies and processing that directly interact with pork producers as well as those in the rest of the economy that are stimulated by the spending of owners and workers. This vast economic impact included total economic activity of more than $83.6 billion, total value added of $20.8 billion and total employment income of $32.5 billion.

As the U.S. pork industry helps develop the 2007 Farm Bill, I cite three guiding principles for the Congress to consider. Principle number one: we must maintain our competitive advantage. Principle number two: we must strengthen our competitiveness. Principle number three: we must defend our industry.

MAINTAIN OUR COMPETITIVE ADVANTAGE

The next Farm Bill should help the U.S. pork industry maintain its current competitive advantage. This includes manageable production costs, unparalleled food safety, further advancements in animal health, and adding value to the raw product so it continues to meet consumer demands.

Competitive Production Costs

Competitive production costs are the result of affordable feed ingredients and efficient production units. The Farm Bill can help the U.S. industry on both counts by maintaining and enhancing programs that keep feed ingredient prices competitive with the rest of the world. Feed comprises 65-75 percent of the in-put cost of producing a market hog. (Each market pig consumes approximately 10 bushels of corn and 200 pounds of soybean meal – that's about 4 bushels of soybeans.) With that in mind, U.S. pork producers are concerned about the impact on our industry of the increased use – mainly through mandates – of corn-based (ethanol) fuels.

U.S. pork producers believe that this country needs a strong renewable energy policy. However, such an energy policy cannot come at the expense of the livestock industry. The current focus on renewable fuels is laudable, but markets must be neither distorted by subsidies and taxes nor constrained by mandates to the point where they cannot send effective price signals. Further research and development is needed to find other energy alternatives, such as using animal manure and fat and biomass, including switchgrass and corn stover. I want to emphasize that the right balance is needed to meet the needs of fuel *and* feed security.

Unparalleled Food Safety

U.S. pork producers have made unparalleled food safety their highest priority. The pork industry has been very responsive to the issue of residues in the food supply and will continue to be vigilant in these efforts. Residues are found in less than .02 percent of all animals marketed. Success in reaching this small percentage is due in part to industrysponsored producer education programs that help producers understand how and why we need to reach these goals. I believe that adequate funding for the Agricultural Research Service (ARS) and Food Safety Inspection Service (FSIS) is needed to allow those agencies to do what it takes to continue their work in keeping the U.S. pork supply safe and wholesome. Consumer confidence is paramount, and we need to ensure it.

Further Advancements In Animal Health

U.S. pork producers support efforts underway in the Animal and Plant Health Inspection Service (APHIS) to address emergency animal disease outbreaks and efforts to implement a national animal disease programs. I support a mandatory species-specific animal identification system that enables USDA to meet a 48-hour trace-back goal. The pork industry has publicly committed to working toward having our swine premises registered and identified by December 2007 and a mandatory swine identification system for all relevant species by December 2008. For the U.S. pork industry, premise identification is the key to meeting the 48-hour trace-back goal. Premise registration is the firm foundation for any National Animal Identification System (NAIS) that is capable of responding to an emergency animal disease outbreak. At this time, there is insufficient swine-specific surveillance data. The industry is concerned that without swine-specific surveillance data to determine the prevalence of swine diseases we would be unable to act quickly to prevent disease spread or to make certifications to our trading partners about diseases in the U.S.

On our operation, we believe that a mandatory animal identification system can be implemented under authority of the Animal Health Protection Act eliminating the need for additional legislation. Our farm is also a research pilot project site, in partnership with the Minnesota Board of Animal Health, evaluating animal I.D. technology.

We strongly believe that before an effective animal identification system can be put in place, the Federal government must fund the development and maintenance of a data base and provide the infrastructure necessary to support such a system.

Consumer-Driven Further Processing

We must continue to meet the demands of our consumers and allow the structure of the production and packing sectors to change with the demands of the marketplace. This includes allowing producers and packers to change to adopt new technologies and capture economies of size and scope. The U.S. pork-packing sector is the envy of the world in terms of efficiency, and Congress must be careful not to take away or hamper this source of international advantage. Allowing producers and packers the freedom to develop new ways of doing business will only enhance the value of U.S. pork products, home and abroad, and reduce costs and risks.

STRENGTHEN OUR COMPETITIVENESS

In addition to maintaining our competitive advantage, the next Farm Bill should strengthen that position by expanding and including such elements as trade assistance, public research, risk management tools, and science-based environmental and conservation programs.

Trade

At the present time, there is a considerable global demand for pork and pork products. Pork represents 44 percent of global meat protein intake, far more than beef and poultry. World pork trade has grown from 3.9 percent to 5.3 percent of total world pork consumption in just the past 5 years. The extent of this increase in global pork trade in the future will hinge heavily on continued efforts to increase agricultural trade liberalization.

Here are some revealing statistics about U.S. pork trade and the important role of trade agreements:

- U.S. exports of pork and pork products have increased by more than 332 percent in volume terms and by more than 289 percent in value terms since the implementation of NAFTA in 1994 and the Uruguay Round Agreement in 1995.

- The U.S. has exported a new record amount of pork each year for the last 15 years and now exports over 15 percent of its total production.
- Exports to Mexico, our number one volume market and number two value market, have increased by 279 percent in volume terms and by 406 percent in value terms since NAFTA.
- China, a recent entrant to the WTO, has become, due to diverse cultural preferences and tastes, a huge marketplace for U.S. pork variety meats that have very little value at home. Shipments of pork variety meats to China exploded by 690 percent in volume and 750 percent in value in 2004 before growing by 27 percent and 33 percent, respectively, in 2005.
- U.S. pork prices were $25.44 per hog higher in 2005 than they would have been in the absence of exports.

U.S. pork producers benefit from open trade. Programs such as the Market Access Program (MAP) and the Foreign Market Development Program (FMD), help expand opportunities for U.S. pork. I urge continued funding for these programs that have long-term market benefits. It is important to emphasize the need to strengthen the ability of U.S. agriculture to compete in the global marketplace.

American agriculture is among the most competitive industries in the world, but it should not be expected to compete alone in the export markets against foreign governments. Reductions of MAP and FMD funding would put American farmers at a substantial competitive disadvantage.

The downside of growing exports is, of course, the larger economic impact should there be any disruption in trade. Pork producers understand this dynamic and recognize that trade disruption would be devastating for the U.S pork sector. I would welcome the opportunity to work with this Committee to develop risk management tools that would support producers and packers, should our exports market ever be interrupted by a serious animal disease outbreak.

Regardless of timing discussions in writing the new Farm Bill, Congress should extend Trade Promotion Authority or TPA. TPA is very important to U.S. agriculture and the U.S. livestock sector – it provides new avenues for trade and sends the following message to our trading partners that the U.S. is a willing and open trading partner.

Research

To maintain the U.S. pork industry's competitive advantage, we must invest in public research. USDA's research is critical to the pork industry, be it improving swine genetics by completing the mapping of the swine genome, testing and deploying new and improved animal vaccines, improving the usefulness of energy production by-products such as distillers dried grains, or further increasing animal productivity. Research can assist in monitoring diseases and preventing a disease outbreak. A significant amount of research has been devoted to other animal genomes. It is time for USDA to do the same for the swine genome. Genome sequencing is only the first step to unlocking key genetic information. Annotation is the identification of the functional genes associated within the sequence of the genome and will provide the industry with tools to quickly and efficiently improve production efficiencies in nutrition, swine health, reproductive physiology, animal welfare, nutrient management and pork quality. In addition, the pig is an excellent model for human research in health and nutritional disciplines. Annotation of the swine genome will assist in the development of research models in human nutrition, physiology and medicine.

Risk Management

Although production variability has stabilized, pork producers can still face significant price risk. The USDA Livestock Risk Protection program and an Iowa program, which protect livestock producers' margins above feed costs, have both had limited success. I believe that the USDA should critically evaluate both of these programs to determine if changes can make them more useful and thus more widely accepted by pork producers. These have worked relatively well, but the usage rate could be increased.

In addition, I believe that more attention should be given to whole-farm programs that would include livestock. Iowa was one of the pilot states for whole-farm coverage and, in most cases, demonstrated how livestock revenue assurance together with crop insurance can reduce premiums compared with insuring enterprises separately.

As noted in the section on Trade above, the Committee is encouraged to consider risk management tools to cover producers and packers should export markets be disrupted by a serious animal disease outbreak.

Conservation and the Environment

Conservation and natural resource stewardship is an area that is most important to our producers. Minnesota pork producers are committed to running productive pork operations while they meet and exceed environmental regulations. Pork producers have fought hard for science-based, affordable and effective regulatory policies that meet the goals of today's environmental statutes. To meet these costly demands while maintaining production, the federal government must provide cost-share support to help defray some of the costs of compliance through conservation programs of the Farm Bill, namely through the Environmental Quality Incentives Program (EQIP) of the 2002 Farm Bill.

Minnesota pork producers are environmentally responsible farmers and business people, and I believe we have fully embraced the fact that our pork operations must protect and conserve the environment and the resources we use. Minnesota pork producers have a serious commitment to environmental stewardship and I believe greater availability and access to EQIP dollars will be beneficial to many of the state's pork operations. So far, Minnesota pork producers have received 7 percent of livestock EQIP dollars allocated to our state, even through pork is the state's largest commodity.

DEFEND OUR INDUSTRY

Finally, the next Farm Bill should defend the competitive position of the U.S. pork industry by not imposing costs on the industry or by restricting my ability to meet consumer demands in an economical manner. We must work against efforts to ban marketing contracts, activists' positions on animal care and housing and other efforts that will harm the agriculture sector.

Marketing Practices

I understand that the issue of banning packer ownership of livestock or eliminating forward contracting continues to be discussed. However, I do not believe that U.S. pork producers will be well-served by having Congress eliminate certain types of contracting mechanisms. This only forces the livestock markets to revert back to an inefficient system used more than half a century ago in which livestock was traded in small lots and at prices determined in an open-market bid system. This system was inefficient and makes no economic sense in today's economy—it died out in the '70s and '80s because it was inefficient. Today, the U.S. pork industry has developed a wider variety of marketing and pricing methods, including contracts and hedging to meet the changing needs of a diverse marketplace.

Industry Structure

Economics should determine the structure of production and processing, including the ownership of both. No economic research has ever shown that either the structure or marketing practices of the industry have harmed producers or consumers. Until such research exists, Congress should not impose limitations on packer ownership of production, producer ownership of packing, or marketing contracts. I believe our family is competing by adopting technology and using tools available to us.

Miscellaneous

Activist groups and special interest groups will be watching this 2007 Farm Bill debate and will attempt to push their particular agenda by adding regulations to our business practices, be it a social or animal rights or welfare or obesity agenda. I believe we must be cautious about allowing these issues and alternative agendas to be added to the 2007 Farm Bill – a piece of legislation that has been aimed for the past 50 years at maintaining the competitiveness of U.S. agriculture and the U.S. livestock sectors.

The U.S. pork industry has developed and implemented strict animal care practices and judicious use guidelines for animal drugs. These programs are now part of the industry's pork quality assurance and trucker quality assurance programs. These programs require producers and handlers to be trained and certified to care and transport our animals with the utmost concern. I do not believe that Congress should legislate on these issues as part of the 2007 Farm Bill.

CONCLUSION

In conclusion, Mr. Chairman and Members of this Committee, I believe we can craft a Farm Bill in 2007 that meets our objective of remaining competitive in domestic and world meat markets. Thank you once again for holding this hearing and for your time. My family and I respectfully request your continued and focused attention to the matters I have brought to you today.